

JOURNAL
OF THE
House of Representatives
OF THE
SECOND CALLED SESSION
OF THE
Sixty-eighth Legislature
OF THE
STATE OF TEXAS
BEGUN AND HELD AT
THE CITY OF AUSTIN
JUNE 4, 1984



ADDRESS BY GOVERNOR MARK WHITE
(The House of Representatives and the Senate in Joint Session)

In accordance with the provisions of **SCR 1**, providing for a joint session of the senate and the house of representatives at 12 noon today, for the purpose of hearing an address by the Honorable Mark White, Governor of the State of Texas, Lieutenant Governor William P. Hobby, and the Honorable Senators were announced at the door of the house and were admitted.

The senators occupied seats arranged for them.

Lieutenant Governor William P. Hobby was escorted to a seat on the speaker's rostrum.

At 11:50 a.m., Governor Mark White and party escorted by Senators Jones, chair; Parker, Farabee, Washington, and Brooks, committee on the part of the senate; and Representatives Sutton, chair; Davis, Schlueter, Haley, and Madla, committee on the part of the house, were announced at the door of the house and, being admitted, were escorted to the speaker's rostrum.

Lieutenant Governor Hobby called the senate to order.

A quorum of the senate was announced present.

The Honorable Gibson D. Lewis, Speaker of the House, called the house to order.

Speaker Lewis directed all members present to register.

A quorum of the house was announced present.

Speaker Lewis stated that the two houses were in joint session pursuant to **SCR 1** for the purpose of hearing an address by the Honorable Mark White, Governor of the State of Texas.

Lieutenant Governor Hobby addressed the joint session briefly and presented Governor Mark White to the joint session.

Governor White addressed the joint session, speaking as follows:

My fellow Texans, I address you at a decisive moment in the history of this state. Today we are at a crossroads. Make no mistake about that. What we do—or fail to do—in this special session will affect the future of an entire generation of Texans.

We may not all agree on every detail of the plan for education reform. We may not all agree on the entire revenue package. But we must—just must agree on the basic objectives that bring us together: our quest for the finest educational system this country has ever seen and the best transportation system anywhere in America. These are the two things that we must reach for. These are the two things that a growing and vibrant state must have to assure its future.

We know that the forward march of civilization has, at almost every significant turn, been marked by some major improvement that made either mobility or knowledge more accessible. Advancements in education or transportation have always opened new opportunities for our people. The wealth of knowledge, spread across an ever-widening spectrum of society, has always fertilized the seeds of greater prosperity. And investments that have given us greater mobility have always repaid us with rich economic and social rewards.

There is nothing mysterious about the role of education in our society. The entire history of the United States has been an ongoing process of making more and more education available to more and more people. The spread of free universal public education in the early 1800's, the Land Grant Act of the 1860's, the GI Bill of the 1940's, the National Defense Education Act of the 1950's, and the Elementary, Secondary and Higher Education Acts of the 1960's—each opened the doors to our schools and universities in dramatic ways.

We never know who is going to pass through those doors when we open them. We never know whose lives are going to be transformed or whose careers are going to transform our society.

Who could have gone to that Houston schoolroom in the 1950's and told us that one of those black girls would grow up to become one of the most brilliant politicians of our age—and one of the admired women in the nation?

Who could have sat in that remote Upshur County school and predicted that one of those young boys would today be helping to shape our technological and economic future?

Who could have ever guessed that the skinny young Mexican-American in a San Antonio parochial school would develop into the charismatic leader who today sits as mayor of the nation's 10th largest city?

Who could have foreseen that the young boy in that Texarkana school would one day be a great leader in American business?

Are those same doors of opportunity still open to bright young Texans?

Could another Barbara Jordan come out of a crowded, noisy, undisciplined Houston classroom today?

Are we graduating the kind of teachers who can build a fire of intellectual excitement in another Bobby Inman?

Are we producing the kind of teachers who care enough to inspire another Henry Cisneros?

Are we delivering the kind of quality education that will produce another Ross Perot?

I submit to you that the answer is by no means certain.

And yet, isn't it obvious—as history tells us time and again—that our greatest economic resource is our people? Isn't it obvious that a healthy and strong educational foundation is the only true basis for progress, for higher human achievement, and for greater economic growth?

Texas' greatest leaders—from President Mirabeau Lamar of the Republic of Texas to President Lyndon Johnson—recognized this. Education was at the core

of Lamar's vision of a greater Texas. And education was at the center of Lyndon Johnson's "Great Society."

In the early days of Texas, lands were set aside for the public schools. At that time, it might have been considered a costly investment; but because of that investment those lands continue to finance our public schools today.

Likewise, the tremendous foresight that made possible the creation of Texas' permanent university fund has paid off; that fund has enabled our flagship universities to become institutions of the first class, among the best in the world.

The shape of this state's future was dramatically affected this past year by the decision of the Microelectronic and Computer Technology Corporation to locate its headquarters in Texas. Once again we found that the critical factor, above all others, which made Texas the winner over California and other States was our commitment to a first-class system of education. This consortium of high technology firms has become a tremendous magnet for other new industries and firms that are following MCC into our state. But the real magnet was the level of excellence and quality found in our universities.

By the same token, the economic payoffs of America's vast transportation system have been no less dramatic.

We only need to look back as far as the opening of the post roads in this country to find one such example. That accomplishment, though initially sought as a means of opening overland mail routes to our distant frontiers, ushered in a whole new era of overland trade and commerce.

At vast human and monetary expense, we pushed the railroads to the Pacific, built bridges, and dug canals. The price was high, but the advantages drawn from a finished industrial system would aid in the consummation of many a dream.

The Works Progress Administration and the Public Works Administration of the 1930's, the National System of Interstate and Defense Highways of the 1950's that would become the largest public works project in the history of the world—in each case the builders and dreamers of better transportation systems have opened new opportunities for virtually every sector of American society.

Public resources and private sector ingenuity have worked together to supply our transportation needs. They have worked in Texas to supply us with a vital network of roads and highways. Yet today that network is straining under the pressures of growth, congestion, and decay. We find that a mainstay of our prosperity is now in jeopardy.

The critical need for new investment in the maintenance and development of our highway system should be lost on no one.

How will we continue to build our communities, generate new industries, provide jobs, link our farms and factories, our homes and places of work, and bring people together without investing in our primary system of transportation?

I believe that Texans are willing to pay for the best highway system in the nation. But to the extent possible, the people who use the highways should be the ones to pay for them.

I share the goal expressed by the legislative leadership: we should remove highways as an unpredictable drain on general revenues. To accomplish this goal the user fees should be both growth-oriented and dedicated to transportation.

I am proposing more than 300 million new dollars a year to be invested in highways. This money would come from a five-cent increase in motor fuel taxes, and I view it as a major step forward.

If the legislature believes that user fees are required, I would ask that they be phased in so we do not damage the economic activity which we are seeking to promote.

We stand today at a time when Texas is capable of becoming a leader in world trade and commerce, if only we will ensure that the necessary systems for economic

development are well in place. We stand today at that crossroads—and if we fail now to make the right decision, enormous potential will be lost and our economic prospects will be decreased.

We stand also at a crossroads in the development of human potential—our greatest renewable resource. Every hope for the livelihood and vitality of future generations of Texans now rests squarely on this generation's decision to move forward with a plan to improve public education. It rests squarely on the shoulders of every member of this distinguished body to decide whether Texas will rejuvenate and reform education or let the status quo continue to seal the fate of our children and grandchildren.

Current conditions make unavoidable the conclusion that we must find better ways of educating our children. The failures of the current system have been spelled out over and over again. The evidence surrounds us, not just in numerous reports and studies, but in the more obvious signs of wasted human potential.

A single tour through our state's prisons and the most cursory understanding of why many of our young people are incarcerated there points to one graphic example of where a poor education can lead. The frustration and embarrassment suffered by those who cannot read and write well enough even to fill out a simple job application is another. Crime and unemployment are among the greatest tragedies that result.

The failures of education are also taking their toll in the area of national security by endangering the quality of this country's armed forces. A recent federal government study found that 45 percent of the Army's recruits could not read or do math as well as the average ninth-grader. The fact that so many recruits cannot even begin their military training until they receive extensive remedial education to overcome functional illiteracy has costly and ominous implications.

Equally disturbing are the less dramatic but more common limitations faced by the young men and women who enter the job market unable to perform the simplest mathematical problem . . . the young men and women entering college who cannot write a simple declarative sentence. For all intents and purposes, basically intelligent people are locked in prisons of their own educational limitations—and their futures are predetermined.

We all recognize that we face a crisis in American education. In the past year, we have seen other states coming to terms with that crisis. The opportunity is now at hand to halt the decline of education in Texas and turn back the tide of mediocrity in our own public schools.

The months of work by the Select Committee on Public Education—the "Perot Committee"—the dedication and commitment of leaders throughout this state, and the resolve of the leadership of this house and senate to reform education in Texas all have given us a moment of opportunity in which to take action. Public support is providing us with the momentum we need to bring about real and lasting change.

I applaud both the legislature and the State Board of Education for reforms already enacted in four major areas.

The legislature has revised the basic outline for instruction. Reform was extended to the area of teacher education, a study of vocational training was undertaken, and the state board has been working to protect the instructional day for academic purposes.

Before there ever was a report entitled "A Nation at Risk," Texas was acting to reduce its own risk.

Members of the State Board of Education and the 67th Legislature deserve our appreciation for taking these first steps in the reform movement. But even as we applaud these initiatives, we recognize them as only a beginning.

Texas has always had a proud tradition of leadership in the United States. Steadily, our state has moved toward leadership in the world community. That

leadership, however, is being challenged daily by the forces of competition. We face a decisive and critical choice by which we will be measured, not only by the rest of America, but by others in the world community at large. Yet the most crucial measurement will be history itself—whether our children are prepared to lead this state into the future.

Unless we come to terms with the conditions we now find in our own educational system, and rebuild and rejuvenate our system with quality and excellence as our goals, Texas may lose the foundation of all her past progress. We just must not leave Texas standing by, while others get ahead. Our state and its people cannot afford it. And I have deep faith—I am firm in my conviction—that there is not a person in our presence today who would let that happen.

In recent weeks I have submitted my specific package of reform proposals that has been the basis for agreement among the leadership.

The ingredients of an effective educational reform package are well known to all of us.

We must make certain that every child learns to read and write before leaving the first grade—and that no child leaves the schools of Texas without proficiency in English.

Whether headed for college or into the workplace, no young person today is equipped for life without a grasp of math and science. We must teach the basics of math and science and teach them well.

No teacher can do the job, no student can learn, in an overcrowded classroom that breeds neglect of our children's needs. So we must reduce class size.

Job markets are changing and so are the job skills that workers need. Therefore, we must have cost-efficient and quality-controlled vocational training for a changing economy.

We must put work ahead of play—we must recapture the school day for academic endeavors.

Learning cannot be achieved with disorder and misconduct in the classroom. There is no excuse for any school district to be without a code of conduct. We must not tolerate disruption in our schools.

We must have equalization of funding to guarantee equal educational opportunity for every boy and girl in every school district in the State of Texas. You and I will not have succeeded in meeting our responsibility until each of us would be proud to send our children to any school in this state—for that is what the true test will be.

If our children are to grow up and become the best and the brightest they must be taught by the best and brightest—and we must provide scholarships to attract the most talented people into teaching.

We must have a clear measure of student progress, and the best way to achieve that is to end social promotion and begin annual monitoring of student achievement.

The State of Texas spends \$8 billion every biennium on education. And yet it is difficult to find anyone accountable for how we spend those precious dollars. We must have a directly accountable management system.

The possibilities in education are restricted if the road to becoming a teacher is too narrow. Therefore we must have alternative routes to teacher certification.

We must have some method of assessing current teaching and administrative staff to ensure that all professionals in our schools possess the skills necessary to provide quality education.

And although I waited till last, the first thing every report has said is that we must give teachers better pay.

We must realize that Texans won't get the teachers they deserve until teachers are rewarded and respected. We can no longer expect women to subsidize our

system of education when better-paying careers are now open to them. Many people cry out that government should be run like a business. Well, no good business manager in the private sector would expect to retain the best talent and expertise by offering less than a competitive wage. Teachers are the very heart and soul of the education system. Because we value our children's future, we must pay teachers more.

At the same time, we must admit that low teacher pay isn't the only problem with our schools. What is going on in our schools is a clear indication that many priorities are misaligned.

Because our mission must involve the quest for excellence and quality in those who teach, it is incumbent that we devise a system which clearly documents the abilities of those who educate our youth. No other issue is more emotionally charged. No other issue more clearly deserves our most judicious attention.

I am convinced that a system can be established which meets the need for assessment of a teacher's skills—and at the same time recognizes the importance of equity and performance.

I am sensitive to the concerns of those who feel that we cannot afford to spend more for education in view of the state's fiscal condition. You can be assured of my strong commitment to avoid additional taxes in the next session. My finance plan which I have submitted for your consideration reflects my commitment to that goal. Just as important, my plan was drawn with fairness to all taxpayers.

I cannot and will not ask you or the citizens of this state to support a plan to finance public education reform and highway improvements without pledging that these and all other government programs be operated more efficiently and effectively. I am committed to making state agencies more accountable. And I am committed to controlling the cost of state government.

During the past six months, I have met with board members and top managers of our largest agencies to discuss cost savings and cost containment measures. In addition, I have written to the head of each state board and commission stressing the need for tight budget planning in the 1986-87 biennium. I will not support additional funding for agencies that are poorly managed, wasteful, or unable to plan effectively—and I have told them just that.

Each agency will be required to justify any increase in the number of employees, as well as budgets for travel, equipment and supplies, telephones and utilities, and all other areas of spending. The burden of proof will be on the agency. And automatic increases will not be permitted.

I am confident that we can live within the revenues made available by our current tax structure and the finance plan I have recommended. And I am confident that with your help we will not need to raise additional taxes in the next regular session.

I have prepared a detailed set of spending projections for the 1986-87 biennium that will allow state government to meet essential needs even under the most pessimistic and conservative estimate that we will have only a nine-percent growth in revenue.

My proposal, which I will discuss with you in greater detail later this week, calls for a tight budget allowing only moderate increases for inflation and growth. It would require state agencies to hold the line on operating expenses that can be reined in through innovative and careful management.

If my budget plan—including my education and highway improvement proposal—is adopted, it would represent a 12.2-percent biennial increase, the smallest percentage increase in state spending since 1970.

If this plan is adopted, it would permit you to return to your districts at the end of the next regular legislative session and tell your constituents that you helped enact the most fiscally conservative budget of the past 15 years.

If revenue growth exceeds nine percent—and I believe that it will, based on the stable economic recovery currently underway in Texas—additional funds would be available to meet the additional needs of a growing population.

But in our immediate concerns for fiscal responsibility, let us not be shortsighted. Let us always keep in mind that improvements in education will do more to ensure the prosperity of this state and nation than any other step we might take at this time.

Those who are inflexible in their view that we can solve all the problems in education without a greater investment are blind to the reality of where we stand.

For too long we have called upon our educational system to do too many things. For too long we have asked too much and have given too little.

We are in the midst of a great period of transition in Texas, with profound implications for the nature of our work and the way we live.

Today we are at the crossroads.

Oil and gas, the economic foundation of the past, is gradually receding with the depletion of those resources. The age of information, of high tech and “Megatrends” and “Future Shock” has arrived with lightning speed.

We have nothing to fear about the future, and we cannot afford to look back fondly to the past. Our future lies in our ability to prepare and plan for a smooth transition that will bring forward our best while leaving none of our citizens behind.

Time and again, education and transportation have been the magnets that attract and sustain a dynamic economy. We must ensure that those two vital elements will continue to be strong magnets as we look forward to the future.

I submit to the members of this legislature and the people of this state that the direction we must choose for Texas at this moment is the one that is truest to our heritage—a heritage of courageous and spirited action with our eyes firmly fixed on the future.

The problems of education and transportation will not go away, even if we pretend they are not there.

We cannot run from them. We cannot escape them.

The immortal words of Franklin Roosevelt remind us that we here in this chamber today have a “rendezvous with destiny.”

Thank you very much.

JOURNAL OF THE SENATE
of the
STATE OF TEXAS

SECOND CALLED SESSION
of the
SIXTY-EIGHTH LEGISLATURE

Convened June 4, 1984

Adjourned July 3, 1984



Mrs. Margrette Vollers, Journal Clerk

JOINT SESSION

(To hear address by Mr. H. Ross Perot, Chairman, Select Committee on Public Education, Comptroller Bob Bullock and Legislative Budget Board Director Jim Oliver)

Pursuant to the provisions of S.C.R. 1, the President announced that the hour for the Joint Session of the two Houses to hear addresses by Mr. H. Ross Perot, Chairman, Select Committee on Public Education, Comptroller Bob Bullock and Legislative Budget Board Director Jim Oliver.

Accordingly, the Senators present accompanied by the Secretary of the Senate and the Sergeant-at-Arms repaired to the Hall of the House of Representatives at 10:00 o'clock a.m. and were escorted to seats provided for them.

The President was announced by the Doorkeeper of the House and, by invitation of the Speaker of the House, occupied a seat on the Speaker's Rostrum.

Mr. Perot, Comptroller Bullock and Director Jim Oliver, accompanied by members of their parties, were announced by the Doorkeeper of the House, and were escorted to the Speaker's Rostrum by Senators Farabee, Howard, Jones, Parker and Truan on the part of the Senate and Representatives Blanton, Shaw, Tow, McWilliams and Kubiak on the part of the House of Representatives.

The President called the Senate to order and announced a quorum of the Senate present.

The Honorable Gib Lewis, Speaker of the House of Representatives, announced a quorum of the House present and stated the purpose of the Joint Session.

Speaker Lewis introduced Mr. H. Ross Perot, Chairman of the Select Committee on Public Education, who addressed the Joint Session as follows:

Thank you very much. I would like to first thank all of the members of the legislature for giving up a big part of your summer to reform the public schools of Texas for the benefit of the three million children in our state. So on their behalf let me simply say thank you for coming together this summer to consider reforming education.

Once before I had the opportunity to address a Joint Session in Austin. It was in 1970 when our men were being held prisoners of war. The men were dying from

poor treatment, brutality and neglect. We were mobilizing a campaign to cause the North Vietnamese to change the treatment of the prisoners.

I was asked to speak to a Joint Session. I asked the members of the Texas Legislature to organize groups of Texans and to go to the North Vietnamese embassies around the world and to urge them to treat our prisoners properly. At the time of that speech, one man had been in solitary confinement for forty-two months. He had not talked to another prisoner.

A few months after that Special Session, as a result of the pressure from the American people and indignation from all around the world, the North Vietnamese changed the treatment of the prisoners and these men were able to survive three more years until the end of the war.

I am taking your time to tell you this story because we have a newly-elected member of the House of Representatives who was that man; who had been a prisoner for forty-two months and who may well be alive today because of the actions of Texans and the members and the leadership of the Texas Legislature. He survived. He came home. He finished a distinguished Air Force career. He retired. He went into business. He just ran for the Texas Legislature and he won. Now, what a name. His name is Sam Houston, that ought to be a help on the ticket, shouldn't it? Sam Houston Johnson and the Lieutenant, excuse me, the Speaker of the House agreed to allow me to introduce Sam Johnson, a great American hero and a new Member, starting next January of the Texas Legislature. Sam, where are you? There he is right in back.

Sam is a living embodiment, Sam is a living embodiment of the title of a best-selling book, Tough Times Never Last, Tough People Do. Sam lasted, Sam endured. If you want to try to understand what it's like to spend nearly four years in solitary confinement, just go into a closet and close the door for an hour. And you'll understand the quality of this man and how fortunate we are to have him and people like you to serve the State of Texas.

Just about a year ago, in the Regular Session, one man stepped forward and proved that one person can still make a difference in our highly complex society. It's very fitting that this Joint Session be held in the House, because this is the Speaker's room. Speaker Gib Lewis drew a line and said, "We are not serving the children of Texas. We simply cannot put enough money into this educational system to make it work. We must reform our system of public education." And the House rallied behind his leadership and this was the whole beginning of the reform program. And I ask all of you to indulge me another personal privilege today, and I ask you to stand and recognize our Speaker for having the courage to step out and reform the schools of Texas.

It's been an interesting year. Our committee was an interesting group. Think if you will for a minute what it must have been like to be chairman of a committee that included the Governor of the State of Texas, the Lieutenant Governor, the Speaker, the Comptroller. You've all heard about the five hundred pound gorilla story, you know, where do you let it go? You let it go anywhere he wants to go. So with a group like this, and I'm just starting, with Senator Grant Jones, with Senator Carl Parker, with Representative Stan Schlueter, with Representative Bill Haley, Representative Frank Madla, and last but not least, a former member of this body, Tony Bonilla.

We had a great group, we went all over Texas. We listened carefully to the people who make our schools work. We particularly listened carefully to the front-line soldiers, the teachers. And out of this patterns developed, plans developed and we're here today to talk about reform.

Texas is a rich state because of oil and gas. We've had a large land mass, a small population and a lot of minerals. We're going through our minerals and using them up. Our population's growing by leaps and bounds. We can predict with certainty

that in 25 to 30 years, Texas can no longer ride on oil and gas. We must build a diversified industrial base and time is running out. We do have time to do it.

The key to that diversified industrial base is a first-rate public school system. Now it's unthinkable to all of us that Texas could ever be anything but a rich state. It's unthinkable to us that our country could ever be anything but a rich country. It's unthinkable that anything could occur that would not allow us to leave a greater legacy of riches and wealth to our children than we had, 'cause that's been historic in our state and in our country. And yet if I had come to you at the end of World War II and said that Pittsburgh will no longer be the steel capital of the world, you wouldn't have believed that either. You've seen it go to Japan and now to Korea. If I had come to you ten years ago and said Detroit would no longer be the automobile capital of the world, you'd have found that difficult to believe and yet simply look in the parking lots.

We created the electronics industry, it's our brainchild. Simply go home tonight and look at the brand names on your electronic devices. We are losing hundreds of thousands of jobs in this country because we are no longer the most creative, productive people on the face of the earth. And we can get that back but we have grown rich and fat and soft and lazy and we have let it slip away from us and it continues to slip away from us.

And when it gets to the point that you can make steel in Japan, steel pipe for the oil field, have to bring the ore in, bring the energy in, make it in Japan, ship it across the Pacific and deliver it to the oil fields in Texas cheaper than Lone Star Steel can in Daingerfield, Texas, the handwriting's starting to get up on the wall. Just think of the weight of steel to ship it that distance.

So we've got our work cut out for us. We simply cannot take the future for granted. Where does our country rank? As you all know that we rank at the bottom of the industrialized world in terms of the educational achievement of our children. Last place. That's tragic. Where does our great, rich, proud state of Texas rank? Down in the forties among the fifty states. We are at the bottom of the bottom in terms of educational achievement.

Well, the good news is that there's no place to go but up. Now then, how far up should we go? We feel to our toes that there is no point in doing anything unless you intend to build the finest public school system in the world. Now that comes strong, even for Texas.

But there's no red ribbon for second place in economic competition. Our children are either going to win or lose as adults. We either should do it right or not do it at all. Being tenth place in the United States won't allow our children to compete and win in the tiny little world driven by rapid change that they will live in as adults.

We literally hold, or you literally hold, the future of the children of Texas in your hands. We have a saying in Texas though, "he's a good hand." We don't need any more good hands in Texas. We need good heads in Texas. A big, willing, illiterate, productive work force won't get the job done. A big, willing, highly productive, literate work force can keep Texas the shining star among the fifty states. Now that's our challenge.

Let's look at some facts. Go back twenty years. We were spending \$260 a child. Today we're spending \$2600 a child. That's a ten times increase. Five times is inflation, but it's still a five times increase in real money and that last five times increase is simply throwing money at a system that didn't work. So now wait a minute, we increased it by five times in real money, and that's all right because surely educational achievement improved. No, as you were generously pouring money into this system, more and more money year after year after year, you got less and less and less in the way of academic achievement on the part of our children.

Let's go back ten years. At that point we were spending 1.75 billion dollars. Today we're spending 8.3 billion dollars. School population only increased by eight

percent. At one time we were hiring one adult every time three new children came into the system. So we didn't run all that expenditure up because of the school population increase, simply throwing money at a system that doesn't produce results for your children.

I propose that we focus in, during this summer, and never forget for a moment that there's only one reason to have a public school system in the State of Texas. The public schools of Texas exist for the benefit of the children of the State of Texas.

This system does not exist to pay people salaries. This system does not exist for special interest groups. As far as I'm concerned, this system has....now you got to do all that and do it well, but let's get the cart behind the horse and remember that this system has one purpose and that is to develop each boy and girl in Texas to his or her full potential so that they can be winners all through their lives and if we do that everything else will fall into place. Now everything we'll be talking about is aimed at them.

I've talked to people all over Texas, as most of you know. We have gone to grassroots Texas to explain this system to the people. Normally by the time I get to this point when talking about costs going through the roof, academic achievement going through the floor, that's a recipe for bankruptcy in the private sector.

Now all of you are in business in one form or another, and if your product is deteriorating at the time your costs are going through the roof, folks, you're going broke, unless you happen to be a public institution. And we have been pouring more and more money into this system year after year after year trying to make it work but getting less and less and less as we put more money in.

The business people always at this point say, "Well who is in charge here?" They don't know. I think it's fascinating that we have to ask in Grass Roots, Texas because we're spending thirty cents out of every dollar that comes to Austin on our public schools and we don't know who runs the system. We know there's a local school board but nobody knows who runs it at the state level.

Well, you know and I know that we have a twenty-seven person elected State Board of Education. We have surveyed people across grassroots Texas in every way we know how and we find that typically the average person who votes always is not aware that there's a state board and not aware of who they vote for.

To make a long story short, these are nice people, they are fine people, but I just tell you straight up they've been unable to manage our system successfully and the buck stops there at the state board.

In any basic management course, there are certain things you have to do to run a business. All of these things are missing in the Texas public school managed at the state level. There are no management goals, no management philosophy, there is no management training, believe it or not. There is no accountability. Now think about that in your business. No accountability except for coaches.

Okay, now we expect that coach to win district, right? And we know what to do if he doesn't, right? That's accountability and that's good. A losing coach is either going to get fired or made principal and we know that all over Texas. Right?

Now my purpose in this story is not to pick on coaches. My purpose is to point out that that's a good....a system of accountability is fundamentally important. But a losing reading teacher can stay in parts of our system for thirty years and go on to glory and nobody ever holds that teacher accountable. That's got to change.

Now here's one that you're going to have trouble believing. How long could you stay in business if you didn't know your costs? You'd go broke quickly. We do not have a cost accounting system for the Texas public schools. We had to get most of the numerical information we got, or all of it in this area, came as a result of work the Texas Research League performed as a public service. They did this by hand and some of the results were shocking. I concluded, we did not want to know our costs in a lot of these areas because the money is so poorly spent.

Now finally we don't have a management information system. We have a computer system but you members of the legislature know that if you want information on the Texas public schools at the state level, normally you wait for it, and in today's technology you ought to have a terminal where you can just key in and get everything you need.

Then when you get it, it's typically given to you verbally. Let me tell you this, after a year of trying to use those numbers, they are so often wrong that we had to turn to the Comptroller of the State and ask his staff to team up and help us put numbers together that we could use; and if they hadn't done it, we simply could not have finished our work. We don't have a management information system is what I'm saying.

Everything you need to run an 8.3 billion dollar system is missing. Now if you leave the system in place and don't change it, it will cost the taxpayers of Texas 25 billion dollars a year by the year 2000, according to the Texas Association of School Boards, and it will not be producing anything that allows our children to compete and win throughout their adult lives.

We simply must put in strong management of the schools. What is the problem? Folks, it's this simple, it's a bottom-of-the-ballot item. And let me put it to all of you on a very personal basis. Would you run, if you're going to run, are you going to run for a bottom-of-the-ballot ticket? No. You run for a ticket that has a prominence in the mind of the voters, and you did and you won. We simply cannot attract the talent we need to run the public schools.

Now, wait a minute, is it really that bad? They've been in place twenty-five years. One person's been president for nine years. You can't be president of the United States for nine years. They've had time to fix it and all that's happened is deterioration, deterioration, deterioration. More and more money with less and less academic achievement.

Now this is the group that has given us the textbooks that are so bad that three states have formed a cartel to try to clean it up. See, we order so many textbooks that the other states get stuck with what we order.

This is the group that hasn't allowed a new dictionary to come to our schools for years, because they don't like some of the words in the book. This is the group that just embarrassed us nationally and internationally with the Darwin controversy. This is the group that has the authority to keep our public schools current and yet has allowed our public schools to fall behind. This is the group that on any given day can go out and clean up the school day and balance out the whole system between academics and extra-curricular and never had the courage to do it.

This is the group that runs, that has control over, the teacher certification process which, being kind to it, is corrupt. Any process that allows illiterate teachers to get a certificate needs to be cleaned up posthaste.

The very best part of our Texas public school system is the classroom teacher, let there be no mistake about it. The best part of our trips across Texas was visiting with the teachers. They are dedicated. They are motivated. They are bright. They are alert. According to the teachers, the toughest critic of the illiterate teachers are the Texas classroom teachers. If there were any way just to turn the problem over to them and say get rid of them, I guarantee you they'd get rid of 'em, because they don't want them any more than we want them. Now let's separate them. The people in the classroom teaching today are better than we deserve based on how we've treated them. And I'll get into that a little later.

But the people in the schools of education now, and this whole process is run by the state board, controlled by the state board, represents the lowest twenty-five percent of the SAT scores of the students in college today. In other words, the dumbest folks in college are studying to be teachers and routinely getting teacher certificates today. Now that is bad for the future. Believe me, the classroom teachers

hate it because it's a blight on the profession and on any given day that whole thing could have been cleaned up and made right, but it has not been done. I simply say to you, that item number one on our agenda, if you and I were going to buy a business that was in trouble, the first order of business would be to put in top management that could do the job.

This is like having the captain of the ship that runs it aground every time he gets the helm and deciding that the solution would be to court martial a sailor. You've got to go in at the top and clean this thing up.

Now we simply have to . . . You say now wait a minute. This offends a lot of people, sure I understand all the problems. But let's look at how big this business is. Do you realize that there is not another business in the State of Texas operating within the borders of the State of Texas that has revenues of 8.3 billion dollars?

This is the biggest business operating inside the borders of Texas, with no management. Okay.

You say, okay, well, how many companies in Texas are operating more widely are larger than the public schools? Only two. Only two.

We have an example of something I can relate to. You see, \$8.3 billion is so much money, if you could get the H. L. Hunt family to turn all of their resources into the State of Texas, we could only run the public schools for a few months. Now, that starts to bring it down to earth. Right? For a few months. It's that big.

Texas Instruments, a five-star company in our state that we're very proud of, has revenues of \$4 billion, is half the size of the Texas public schools.

Next, we start to put it into perspective. You can build eighty-three \$100 million downtown Dallas skyscrapers and pay cash for them every year. And you don't pay cash for skyscrapers. As you know, you fund those things out for 40 years or as long as they'll let you.

You can pay cash for eighty-three a year. We don't have eighty-three \$100 million skyscrapers in downtown Dallas. That's how much money we're talking about or you can go to San Antonio, about 830,000 people, get every man, woman and child in the city a brand new \$10,000 car every year and pay cash for it.

Folks, you bought a ticket. I'm telling you. You bought a ticket to first-rate education. You just didn't get to see the show.

Now, when it comes to money, we're going to give you two or three bad choices. You can put a little money in it now, get it under control and build the finest public school system in the world. Or, you can sit there and look at it and let the music keep going the way it is now, and it will turn into Pac-Man. It will eat up every dollar that ever gets to Austin, Texas, by the year 2000 and the children won't get the benefit.

Now, those are our choices.

You say, well, why do we have to put any more money in if there's a lot of waste? And there is a lot of waste. Folks, we don't have a cost-accounting system. We don't know where it is. But, I guarantee you, there's 15% there, and that's a billion, \$200 million. And it's going to take two or three years just to find it, because nobody wants to know where it is right now.

Well, excuse me. There are a lot of folks that want to know where it is. But I mean there's some that don't want to bring all the bodies to the surface, because one person's frill is another person's necessity. I mean when we try to get motorcycle riding for high school credit out of the Texas public schools, you're going to have some Kamikazes show up here and put their bodies right across the railroad tracks to keep them.

And I use the word Kamikazes after some thought, because all motorcycle riding for high school credit gives you is to stimulate the Japanese motorcycle industry, if you think about it.

Now, the point I hope I've made is we have a huge business. We've got to have first-rate top management to run it. And we've got to then get down to the business of reforming our schools.

The first thing — that's Item Number One, is put in first-rate top management. We can get them. You can get the best people in this state to serve because this is the economic future of the state.

If for no other reason they'll serve out of self-interest. Our whole future is tied to a first-rate public school system.

We can't have just any kind of industry in Texas. We're almost driven to high-tech industries because they don't take a lot of water, they don't take a lot of this, that and the other. They do take a lot of brain power.

Isn't it terrific that we've got a new chancellor whose goal is to have The University of Texas the finest institution of higher learning in the world? Now then, if we have a goal to make our public schools the finest in the world, we're in the race, and we can win, and our children can win. And it's the only real legacy we can leave our children, very frankly.

Item Number Two. After we clean up top management, clean up the school day. The school day has been eaten up by a lot of things. Worst case we ran into in Texas, only twenty-five percent of the school day was spent on learning. A typical case, fifty percent.

I'm not going to give you all the examples today, but let me just hit a few sacred cows.

We waste a tremendous amount of time on non-learning activities. We typically have 40 clubs in a big city high school. They don't have any money, and everybody wants to take a trip. And they raise the money during the school day, which is just goofy. Now, go back to when you were in school. A good looking girl with the drill team is allowed to come into algebra class and sell you cookies. Does that upset any man here? At 16? No?

Schools were a little smarter than that when we were 16. Now then they raise the money while school's in session.

Say wait a minute, you against them raising money? No. Do it in the afternoons and on the weekends.

And the purpose of raising the money? Then they have to deliver the cookies and that's another pleasant experience. If the teacher is good natured, you get to eat them in class. And that's the third.

Three good experiences all not related to learning.

Now then, the drill team is going to take a trip. Now, folks, we don't take short trips anymore. Nobody goes to Waco, nobody goes to Waxahachie or Buffalo Gap, believe me. And this year, we had a little country town send a 90-girl drill team to Hawaii while school was in session.

You say, what's the beef?

That's it. While school was in session. Go at Christmas, go at spring vacation, go at summer. These are great trips for the kids. Raise the money after school, but don't just take 90 children out of school for 10 days. That's 900 school days missed.

Now the band goes to Belgium, the choir goes to Cancun. And when it's over, we've just had travel out our ears.

Last night I was stuck at the airport waiting to get out because of bad weather, and a man came over to me from the Texas Farm Bureau. He said, "I'm here today to keep you from destroying vocational agriculture."

And I said, "Well, that's interesting, because I grew up in an agriculture environment and the last thing I'd want to do is destroy it, but we sure want to get rid of the corruption." And he kind of blinked and said, "What do you mean?"

And I said, "Look, when you and I were kids, if we could have gotten out of school an unlimited number of times to go to fat stock shows, and if our parents would have let us, would we have gone?"

Every man here at 16, 15 — now, you say, wait a minute, I lived in downtown Houston. That's no problem. Just buy a chicken, get something small. See?

I know you're all tired of hearing the story 35 — we have one case 35 days across Texas, taking a chicken to livestock shows, missing school for 35 days while you're paying \$8.3 billion.

Houston papers questioned the accuracy of that, went to Houston Fat Stock Show, couldn't find anybody that hadn't missed 20 days, found a new world champion at 42 days with a sheep.

Now, when I was in school, the real challenge was to get the kids out of the cotton fields and get us in class. And the school system was really kind of run around agriculture. Now, we've come full circle now. We've institutionalized cheap child labor and we call it distributive education and we're dumping children and particularly minority children and disadvantaged children out of our schools at noon to cook hamburgers and tacos, and sack groceries, and damaging forever their ability to lead rich, productive, successful lives.

Now. Say, wait a minute. Are you against distributive — No . . . we're not against distributive education. But let's put a muzzle on the thing. Let's get it under control.

Now then, that brings us to vocational education. Vocational education is across this state, training children for jobs that don't exist on obsolete equipment. It's a dumping ground for the poor and the disadvantaged and the slower learners.

We had a man from Senator Carl Parker's district come before us that's a pipefitter. He said, "Look, I can teach them a skill in an apprentice program." But he said, "I can't teach them to read and write."

Now, folks, we have created a system, spent \$8.3 billion for it, give the child that was socially promoted....now, that's another phenomenon that I hope you'll kill this summer. That's the cruelest form of economic segregation. Now, think about that.

You take a child from a disadvantaged family, say from a black family. The parents never had a chance to go to school. The child has a chance to go to school. The child goes through the schools; the child graduates with a diploma; the hopes and dreams of the family are wrapped up in that child and then the parents and the child realize that the cruelest form of economic segregation has been played on that child.

Because that child never had to learn. Never had to learn.

Social promotion.

Now, that's what we've got going in this \$8.3 billion system now. And I'm hoping that we kill that this summer to make sure that our children have to learn.

Now, back to vocational education. We're not against vocational education. We're against all the funny rules. We're against all the special work rules. We're against the this, the that and the corruption that's crept into the program. We're against training children for irrelevant jobs. We're against training children for jobs that don't exist.

We feel that the good courses will survive and that the bad courses should be gotten rid of. You say, like what?

Bicycle repair.

Just take the slowest old boy you ever knew. How long can you spend teaching him to fix a 10-speed bicycle?

A week? See?

Now, my favorite is the one out there — I don't know where this one fits....it's on operating milking machines.

Now, I was a child when the milking machines first came out. Now, that was the second freeing of the slaves. If anybody ever lived around a dairy you know exactly what I mean.

It didn't take but a few hours for the dumbest old boy I knew to figure out how to operate that milking equipment, because that was his ticket out from under that cow.

Down in the Valley, where they just, you know, vocational ed, in some of these places is thriving, they're dumping the kids in there that could be architects and lawyers and engineers and have tremendous futures. We had the president of a school board come to us and say, "Look, I've run a big automobile dealership. We've got kids coming in my dealership with three years of automobile repair that have the equivalent of 60 days experience."

Now, that's what we're talking about. Clean it up, gut it out and let the cream survive.

We're teaching pottery at \$1,400 a child. Now just think about that. How many children in Texas are ever going to make clay pots for a living?

We're a big rich state, folks, but we can't — it would cost you \$200 to \$300 to teach first-class English, first-class algebra, first-class math.

\$1,400 a child. These are goofy things that have crept into the system.

Clean up the school day, clean up the school night. And here's one for you that doesn't cost you a penny. Assigned homework.

You get the school day back for learning, and spend it on learning, put a two-hour block after school for extra-curricular. Now see, we didn't kill football.

We're not trying to kill anything.

We're trying to balance the day out, there's just so much time.

Two-hour block for extra-curricular activities after school. Now, leave the children home at night and assign homework.

You say, well, that's no problem. It's a terrible problem. Look at the UIL calendar. They're out every night doing something. They're traveling all over the state, playing some game or what have you during the week.

You say, wait a minute, we can't kill the games. That's his story. Just saw Pompeii on television, right? It's going to be Christians or the lions, or you know, Abilene versus Odessa, or — you know, we've got to have the games.

May be different as time passes — but, wait a minute. We don't have to kill the games, we just put the games in a different time.

Now, to put this in perspective, if the local folks want entertainment, let's just say, "You know, when the bell rings, I say, wait a minute. We've got — we want to be entertained on Friday night."

Keep in mind the first reply is, "look, you want them to win on Friday night, or do you want them to win all through their lives and also win on Friday night, because that's what we're working on this summer".

Right?

Okay'

Now. But if they press you on that, say, "all right," in jest. I have a proposal for you here today. We close the public schools of Texas for one year; we take the \$8.3 billion and spend it on entertainment. We can build four hundred, \$20 million Six-Flags-Over-Texas theme parks across Texas, pay cash for them, and have a source of revenue for the state.

Now, think of that.

Somebody thinks it's a good idea.

Okay.

Now, you have \$300 million left over. Now, just think about — this helps you put the massiveness of this system into perspective. If you got down to the 400th largest city in Texas, not only do you not have a stoplight, you don't have a paved road.

I mean it's that small. That's how much entertainment you could buy in one year. That's my point, very simply.

Clean up the school day, clean up the school night. And next put a great teacher with a great unwatered-down textbook in every classroom in Texas and keep them there.

Now, that's the key.

We beg you to stop building buildings. No, not the state, but at the local school boards, on any slow day, if nothing else is going on, we'll build a building in Texas.

We may be at the bottom of the barrel in terms of academic achievement, you need to know this. We have the largest school debt of any state in the United States.

I am regretful to report to you we did not spend it on libraries, chemistry labs and physics labs. We have got the darndest collection of indoor field houses, indoor swimming pools, astroturf stadiums, electric-cleat cleaners, towel warmers, and you name it, you ever saw.

Those things are done. We don't have to keep doing it.

Now, great facilities have very little to do with learning. Great teachers have everything to do with learning.

This means proper teacher preparation, proper teacher preparation, proper teacher compensation. You don't get something for nothing in your business, and you don't get something for nothing in the education system.

Proper teacher compensation.

Now, let me be perfectly clear here. This doesn't mean just paying folks for staying alive, you know? This means paying teachers for doing a great job of educating our children.

Now, then, one thing that's really missing in our system. We don't listen to the teachers. We don't listen to the the teachers.

How long could you stay in business if you didn't listen to the people who dealt with your customers? The teachers are the frontline soldiers, right?

We need good two-way communication. We clean that up, get a great teacher properly prepared, properly compensated, good two-way communication.

Next thing we've got to do is build the finest elementary system this world has ever seen.

Now, in big rich Texas we spend all our money up where it does the least good, in high school. And we spend the least money where it will do the most good, and that's down in the elementary grades where we could teach little children to learn how to learn.

Now, we, unfortunately, have an attitude in too many places across public education in Texas that blacks and browns and disadvantaged people cannot learn. Now, as far as I'm concerned, anybody that feels like that, number one, is wrong, and number two, should not even have a job in the new system.

Because I can take you across Texas and show you that they can learn, and I can take you across Texas and show you in systems where people are trying, that it works. And I can show you that we've got to have a system that doesn't just cater to the middle-class child from the home with two loving parents, with the mother at home. You've got to take Texas the way it is. But the key is down there in the elementary grades.

We've got three-year old street children in this state that would be better off in the worst day care center you've ever heard or read about than where they are.

See? These are just kids that are on the street. If we don't get those children into early childhood development centers —. We're not trying to take a four-year old away from adoring parents. We're trying to take a four-year old off the street. You know?

And what are we going to do when we get them there? We're going to do exactly what you do in your home. We're going to love them. We're going to encourage them. We're going to teach them that they're somebody special before they learn to think so poorly of themselves that they never try.

Study Huntsville's prison population and you could have predicted when most of that population was three, four and five years old that that's where they'd wind up. Their egos were so damaged. Now then, let's take this street child, has had no experience, comes into the first grade next to your child. Your child shows up clean, scrubbed, knows his numbers, knows his letters, reads a little bit. The hopes and dreams of the family are wrapped up with him.

I'm a street child, I show up, not poor but proud. Hell, I'm poor and dirty. I got a 50-word vocabulary. I've met these children. I don't know my last name. I sit next to your child. At the end of the first day I'm so defeated I just want out of there. School is not a bad place for me; it's a terrible place for me.

But if you got me into that school a little early, you got me in there when I was four, and you loved me, and you hugged and you encouraged me, and you told me I was somebody and you got me ready for the first grade, school suddenly becomes the best part of my life, and by the time I get to the first grade I'll be competitive with your child, and two good things happen. I'm a learner, and your child doesn't get held back because of the slow learners in the classroom.

This won't cost us much, and it will save us a fortune over time.

And I hope you'll consider that in the early childhood development centers and the finest elementary system this world has ever seen. That's where we win or lose, folks.

Then we go on. We've got to get the parents back into the game. I won't dwell on that, because you can't legislate it. But we've done a lot of work on it, but we've got to get them back in the game and we will.

And there are programs across Texas to get them in the game. Anything you're worried about, I can show you a program that solves your problem across our big state.

We've got good programs in different places. And if we had good management at the state level, instead of having people sitting right across the street over here, talking to one another, they'd be out in the field discovering those programs and taking the good ones and mass producing them across the state.

Now that's what we've got to do in the future. And we can do it.

Get the parents back into the game.

Now, that brings us to equalization. We've got school districts so poor they can't keep the lights on, and we've got school districts so rich they can't spend the money and we've got a court case we're going to lose with 100% certainty, and you know it, and I know it.

As an act of will, the people of Texas need to take this one on, and have true equalization.

Again, one man has made a tremendous difference. Our Comptroller, Bob Bullock, took the toughest snake in the barrel. That's equalization, and he and his staff have worked on it for a year, and they have put together a coalition of the rich schools, the poor schools, the minorities, the concern of everybody involved, and they have come up with a plan, and believe me, it is a good plan, and I hope you will seriously consider it. And in contrast to this thing that floated over the horizon from the State Board over the weekend, you know. . .there's no comparison. The thing that just popped out over the weekend is to take the old system and pour more money into it.

That's their solution for everything, folks, and it didn't work.

So, we simply must equalize.

Now, equalization is an unnatural event. We're all born selfish. The psychologist will tell us that. We are taught through our children's programs, our parents, our public schools, our churches, boy scouts and girl scouts to share because society will only work if we share.

And when I was in the public schools, and maybe you've heard it...I had to learn the same poem. We were taught a poem that sums it all up about equalization. As

a matter of fact, Sam, this poem applies to you, as far as the Texas Legislature is concerned, if you'll think about it. It has two purposes here today. It's very short.

"Help the man who is down today.

Give him a lift in his sorrow.

Life has a very strange way.

No one knows what may happen tomorrow."

Now, we must equalize in this state, folks. And we've got to take that on. Or, if we don't take it on, don't waste time reforming the schools because the courts are going to be back in our schools, and they'll stay forever, and we won't be able to get reform done because they'll be running the schools now on two issues.

Something we're stuck with, something we've got to do.

In closing, let me mention that in the Senate, Senators Grant Jones and Ray Farabee will be carrying our bills. Now, there's a pair of heavyweights for you, and I hope that lets you know we're serious. And in the House, Hugo Berlanga, Wayne Peveto, and Lee Jackson will be carrying our bills.

All four senior leaders in our state have endorsed these programs. They were on the committee; they voted for these programs. The first senior official in the State of Texas to come out for the appointed board was a man who has to run a business, make a profit, and understands cost controls and management, and that's the Speaker of the House, who understands it's just something you've got to do. If you can't manage it, you'll never get results. You can pour all the money in the world in it, and not get the answer.

All four elected leaders. At contrast, aren't we lucky? You go to Washington, you couldn't get the top four elected officials in Washington together to lead a group in silent prayer.

Now, just think about it. You know, we've got the four horsemen, the strongest four people in our state leading the charge. They're out in the street ready to go. It's time to strap it on and get the job done, and with that kind of leadership...I haven't said much about the Lieutenant Governor today. You don't need to say much about him, but I know I speak for everyone here when I say he is probably the most respected servant of the people in the State of Texas, and I certainly want to recognize him.

He was working on school reform before any of the rest of us started thinking about it. He's been dedicated to it for years. He and I were working together several weeks ago and he turned to me, looked at me intently and said, "Ross, this is the most important thing I will ever do in my life." Think about it...you land in Houston at Hobby Field, you own the Houston Post, own a string of television stations, long-time Lieutenant Governor of the State of Texas, a distinguished record of public service to the people of Texas...it's the most important thing he will ever do in his life. Then he pointed at me and he said, "Ross it's the most important thing you will ever do in your life because if we do this right we can leave Texas a rich state; we can impact the lives of millions of children and we can build an industrialized base that will support the future of Texas after the oil and gas runs out."

I tell you that story because I suggest to you, that it may be the most important thing that any person in the legislature will ever do in his life, so I ask you on behalf of the children of Texas, as you consider this program this summer, to keep this philosophy in mind, and this has been our slogan: "Millions for reform, but not one more penny for the status quo."

Now, folks, if you put more money into this system, you are wasting money. I propose you put a big switch down here. If we get reform, then we come up the money to make it work. If we don't get reform, then I suggest we come back in January and try again. We will be here — our committee will be here with you until we get it. But let's do it right or not do it at all.

In case you're wondering, Stan Schleuter did not write that part of my speech, but he could have and I would have taken it word for word from Stan. And finally I'd like to leave you with Winston Churchill's last speech. He was asked to go to his boyhood school and tell the boys everything he had learned in his years of public service. This is the entire speech and I suggest that as you start to reform the public schools of Texas, there is no place for compromise. Compromise means watering down. There is a place for better ideas, certainly, but not for compromise. Who wants a car with two wheels and no engine. That's a compromised car. Better ideas, and you'll have better ideas, but don't water it down because it doesn't help the children of Texas. Just keep Winston Churchill's last speech in mind. It's everything he had learned in his fifty or so years of public service and this is the entire speech: "Never give in, never give in, NEVER' NEVER' NEVER"

Thank you very much.

The President then introduced The Honorable Bob Bullock, Comptroller of Public Accounts, who addressed the Joint Session as follows:

When Governor Hobby and Speaker Lewis invited me over here, they asked me to talk about money.

That being the case, I could make the shortest talk in legislative history:

You don't have any.

I don't know how I can make that any more clear, but let me come at it from a different angle.

It is as simple as this: If you spend any additional money on any new or any existing program, then you must find a way to pay for it.

Well, now that you've been turned down for credit, you deserve a more complete explanation.

And, I think it is best to begin by putting our situation in a proper historical perspective.

Look back for a minute at the events which have shaped the Texas economy as we know it today:

The date: March, 1983. The place: London. OPEC oil ministers dropped the bottom out of world oil prices.

And, we here in Texas sat helplessly by as the price of Texas crude dropped.

The drop in value of Texas oil sent shockwaves throughout our economy.

We not only lost millions in severance tax money, but the oil and gas industry accounts—directly or indirectly—for 30% of our sales tax.

And so, consequently, in 1983 our sales tax failed to grow for the first time in its history.

The devaluation of the Mexican peso—which began in February, 1982, was a devastating blow to the Texas economy.

It hit not just our 1,200 miles of border, but it reached deeply—and painfully—into international commerce in Houston and San Antonio.

And look then at the national recession.

It crippled the element that is most critical to the strength and growth of our economy—JOBS'

OPEC. Devaluation of the peso. The national recession. Last summer's drought. Last winter's freeze.

What do they all have in common?

They all have in common the fact that they were not the products of Texans. They did not happen at our instigation.

And they have in common the fact that they could not be anticipated in advance. How can you anticipate a drought? How can you forecast a Christmas freeze on a hot day in June?

And they all have in common the fact that we could do nothing about them.

I say today, that no Legislature in the history of this state has ever carried the awesome responsibility you now have on your shoulders.

You carry the responsibility of knowing that my official revenue estimate says there is \$15 million available to you today.

\$15 million.

You carry the responsibility of knowing that whatever you buy and whatever you pay for in this special session will be back here in January to be paid for again.

And, you are entitled to know what I am projecting for the coming two years.

I believe that state revenues for the budget period September 1, 1985, through August 31, 1987 will total \$33.1 billion.

If I'm right, that will be \$1.3 billion more than our revenues during this current budget period.

When I'm through here I understand that Jim Oliver of the Budget Board is going to speak.

I also understand that the Budget Board has looked at spending commitments for the next two years, and I think he will agree that \$33.1 billion will NOT cover even a bare-bones budget for 86'-87'.

Frankly, January and June are inseparable.

Just in the few hours you have been in Session I have already been asked one question repeatedly:

"Bullock, is there a chance the revenue picture will get better?"

My answer is simple: No, I don't anticipate any great change.

In our revenue estimate for the rest of this year and for the two years ahead, we have already taken into account every bright spot we could rationalize with common sense and business sense.

Our estimates over the past year have consistently run within one percent of what has actually taken place.

For the next two years we see continued, slow recovery in Texas.

We see continued, steady gains in employment.

In the oil industry we see stable prices through 1987.

But again, the hostilities now taking place in the Persian Gulf emphasize our helplessness in a global, political marketplace.

But let's stop right here and understand something.

Texas is not broke.

Texas is not down and out.

It would be wrong—thoroughly, absolutely wrong—for anyone in this room, or beyond the borders of our state to think that our economy is on the brink of disaster.

Far from it.

Our total revenue for the past year exceeded any previous year in history.

This year—when the budget year ends August 31—our total revenues again will have set a record.

But it is also a simple proposition to say that all of that record-setting revenue—save the \$15 million I mentioned—was spent during the Regular Session last year.

A few years ago they called Texas the "Superstate," and Texans the "Super Americans."

We were—and we are.

Texas is still the flagship of the nation's economy.

We are Number One in oil and gas. In fact, we're Number One in most everything.

But most of all, we are Number One in the quality of our people.

And speaking of our people, we not only have the best, we are getting the most.

Three of the 10 largest cities in America are in Texas, and no other state can say that.

In just a few short years we will pass New York in total population and become the second most populous state.

Now there are two ways of looking at that.

There are those who say our exploding population is our problem.

But I submit that our population is not a burden; it's an asset.

Our people are an asset. Their productivity is an asset. Their creativity is an asset.

Texas has a lot of assets at your disposal.

Others look ahead and see challenge. Texans look ahead and see potential.

Thank you.

The President then introduced Mr. Jim Oliver, Director, Legislative Budget Board, who addressed the Joint Session as follows:

Thank you, Governor Hobby, Speaker Lewis, Governor White. Mr. Bullock, I was awfully relieved when you did not change that \$15 million figure. I would have had to rewrite the speech if you had.

He's been very consistent with his forecast for the ending balance for this current biennium and as we have reviewed the numbers and worked with his staff, we can see no reason why we should deviate either. It puts you in a position, in this 2nd Called Session, of knowing that for every additional dollar that you appropriate to improve our public school programs and our highway programs you will need to pass a tax bill to pay for it.

I have been asked to present a brief review on the spending policies that are now in place in the state of Texas and briefly give an outlook for the 1986-87 biennium. I have got to tell you that the action that was taken in the last regular session in writing the current general Appropriation Bill for the 1984-85 biennium has a very strong influence on the outlook for the 1986-87 biennium. Let me refresh your memory on some of the spending appropriation strategies you used in adopting the budget for the current biennium. Because of the fact that there were some clouds on the economy at the time, and revenue forecasts were being reduced during the last regular session, you used four one-time sources of money in writing the current Appropriation Bill. When Comptroller Bullock certified the Appropriation Bill that you adopted, he was looking at a beginning balance of \$600 million and as he has indicated, no beginning balance is forecast to start off the next biennium. So that was \$600 million that right now looks like a one-time source of funds.

Additionally, you passed legislation which changed the dates for collecting some of our major revenue sources. The result of that was to reach into the 1986-87 biennium and pull forward into the 1984-85 biennium approximately \$464 million which, as you were told at the time, was a one-time source of revenue. In addition, you chose for, on a one-time basis, to reduce the state's contribution to the Teacher Retirement System from 8.5 percent to 7.1 percent, thereby relieving the transfer to the system by approximately \$210 million. That required the passage of legislation and that reduction in rate is effective for only two years, the current year. It automatically goes back to 8.5 percent in the next biennium.

Additionally, and this does not involve a huge sum of money, but just as an indication of how important small sums of money can become. For a two year period, the 1984-85 biennium, you stopped the transfer of one cent of the cigarette tax to the local urban park fund. That saved \$40 million, not much when compared to the other three one-time sources, but it is my understanding at the end of the session that you had to do that last session or the comptroller would not have been able to certify the Appropriation Bill. So \$40 million can be very important. That transfer will continue in the next biennium.

These four sources add up to approximately \$1.3 billion of one-time funding in establishing where you are right now and where you will more than likely take

off in writing the Appropriation Bill for the 1986-87 biennium. All of these actions were in the mind of the legislatures' leadership when they encouraged you to adopt, by resolution, the creation and the interim of the joint select committee on fiscal policy, and I want to briefly run down the membership of that committee because it corresponds almost exactly with the membership of the select committee on public education: Governor Hobby and Speaker Lewis head the committee; Governor White, Comptroller Bullock, and Treasurer Richards are ex officio members; Secretary of State Fainter is a member. In addition, Senators Jones and Farabee are members and Representatives Rudd and Schlueter are members. This group, quite often, would have a meeting of the select committee on public education on one day and then follow that up the very next day with a meeting taking a look at the fiscal policy of the state. In those meetings the committee received presentations on the outlook for the state's economy, not over the next two years, but over a longer period. It examined what is happening to the state's economy, what is happening to the basic economic structure and how this effects the revenue base of the state, what it predicts for future revenue forecasts. It asks the staff of the budget board and the staff of the governor's office to take a look at the last ten years and find out what kind of spending policies are in place for the purpose of examining what kind of momentum these policies have. Some of these spending policies that are in place right now are more susceptible to change than others. I can assure you that if you are going to meet the challenge that has been laid before this 2nd Called Session and really do something significant in reforming our public education programs it will take not only additional tax dollars, but it will take changing some of your existing policies on priorities.

As we look back over those ten years, I think it is important just to quickly review some of the more important features that we discovered. We found that even though state spending had increased a large percentage from fiscal 1974 to 1983, state spending increased 208 percent. But of course the budgets of state agencies are impacted not only by the effect of inflation but also by the effect of larger populations, more students in the public schools, more students in institutions of higher education, larger welfare case loads. So we made an adjustment in that 208 percent increase and we found that you adjust just for the effect of inflation as measured by the consumer price index and just for the growth in general population. That 208 percent increase drops down to only a 16 percent increase or an average annual increase of 1.7 percent. It is reasonable for you to ask, "Why should it have increased at all after adjusting for inflation and general population increase?" That is a reasonable question. What did we get for that additional 1.6 percent annually increase? Here are some of the things you got:

First of all as a policy you did attempt, as a legislature, to accommodate the effects of inflation in setting the salary rates for state employees, for faculty members in institutions of higher education, and for classroom teachers. This was a period that saw skyrocketing utility costs and you attempted to make appropriations there that would permit institutions of higher education, state hospitals, medical schools, and the like to pay their utility bills. Many of these factors, such as utility costs and also medical services, far exceeded any inflation rate that was measured by the CPI.

Additionally, from 1977 on, as you have improved funding and increased funding in public education, you have increased the state's share of the foundation school program. In 1977, the state paid 77 percent of the cost of the foundation school program. In 1983, the state of Texas paid 89 percent. Small changes, that is really not small, but any change in this state/local partnership can have an impact on the cost of state government and when it effects a program the magnitude of the foundation school program, you are talking about many, many millions of dollars.

During that period and continuing to take a look at public school finance, you continued to match, for retirement purposes, that part of the school district's payroll

which is paid for from local funds. To that extent, the state's costs are really out of control and not within your discretion.

During that period of time and also in 1977, the state highway program ceased being funded totally with highway user fees and for the first time you started funding the highway construction and maintenance program with general revenue funds. This added a burden to those revenue sources.

In higher education, not only four year institutions of higher education, but also in junior colleges, you continued to maintain what is essentially an open enrollment policy. I know of virtually no other state, certainly no other state anywhere near as large as Texas, that has as generous an enrollment policy as does the state of Texas. You accommodate this by keeping tuition and mandatory fees very, very low compared to other states. Only two states of the fifteen most popular states have more students enrolled in four year institutions of higher education than the state of Texas does. Those two states are Indiana and Virginia. That is a policy that you may need to examine.

During the same period, you continued to provide financial accommodations to orders of the federal courts, two of the most costly involving the Texas Department of Corrections and institutions under the Department of Mental Health and Mental Retardation.

These are just some of the things that you got for that additional 16 percent of real increase. It is not all, by any means. You were able to do this, not only by not raising taxes, but as a matter of fact, you eliminated the state property tax, you raised the exemptions on the inheritance tax, and you exempted residential utility bills from the sales tax. Since the effective day of those pieces of legislation until now, that revenue that has been foregone has totaled over a billion dollars.

When the joint committee saw these numbers, it said, "That is what we have done in the past, let's look to the future now. Let's see what the 1986-87 biennium looks like." One of the instructions that Governor White, Lieutenant Governor Hobby, and Speaker Lewis gave the staff of the budget board and the governor's office was to get together and define, specify a budget that is in place right now. That may sound like a very simple matter. Just take the total appropriations and that is where you are. But, unless you look at it very closely, unless you take some care in getting all appropriations together and all of the purposes described for the appropriations, you can have some disagreement as to where we are right now. I think the committee felt that there will be enough things to disagree about in the future without disagreeing on where we are right now.

So, we did define a 1985 level of budget and they said, "Now we want you to build at least three assumptions for what it would take to accomplish three different things in the 1986-87 biennium. First of all we want a no growth budget, a budget that has absolutely no increases in it at all, nothing for inflation, nothing for growth in caseload of services or enrollment, no construction whatsoever." And we did that. We essentially took 1985, multiplied it times two, with the exception of three areas which are controlled generally by statute and that is the cost of the foundation school program, the cost of the highway cost index and the transfer to the highway fund, and the cost of the teacher retirement system and the state employee retirement systems. When we did that under spending assumption number one, we found out that if you assume a nine percent growth in revenue in the 1986-87 biennium which incidentally is the same growth in normal revenue that is in place right now in the current biennium, it is the same nine percent in growth of normal revenue that Comptroller Bullock emphasized was right on target. If you assume nine percent growth in 1986-87 biennium and if you apply it to spending assumption one, an extremely austere assumption, you are still \$570 million short. This is without taking any consideration what you might do in the special session.

The second assumption they wanted us to price out was, "What if you take spending assumption one and apply some increase to accommodate the effect of

inflation?" Our best forecast right now is showing that inflation in the 1986-87 biennium is going to run at an annual rate of something like six percent. But we did not plow six percent into it. We took just four percent on the theory that perhaps you might not ought to fully accommodate the effect of inflation. When we did that, again with no growth in services and with no construction or capital outlay, none whatsoever, a nine percent growth in revenue would leave you \$1.8 billion short.

The third assumption would be to then apply a small amount for growth increased enrollment. When we did that to the second assumption and again assumed a nine percent growth in revenue, you would be \$2.2 billion short. So, let me assure you that if there were no special session today, and if you were to go to the regular session without taking any action at all, you would have some very serious difficulties facing you in maintaining the current level of services.

You should have on your desk a page that looks something like this and is entitled Summary of Impact of Governor's Proposals; The Second Called Session. After we had developed these three assumptions, this was before the special session had been called, this was before Governor White had made his proposals to the 2nd Called Session. After the governor made his proposals, the budget board asked the staff to take these proposals and apply them to the three assumptions already identified. We have done this.

The first thing that we will point out to you and Governor White mentioned yesterday that the governor's tax proposals presented to the 2nd Called Session would raise \$920 million more than the spending proposals that he has made to you. The effect of this would be to lessen to some extent, not entirely, the spending difficulties, the appropriation difficulties that you would encounter in the regular session. If you have that one-page handout, you will notice that instead of being \$570 million short, for spending assumption one, you would have \$330 million left over. However, if you then go to assumption two which accommodates inflation to the extent of four percent per year, you are again in a deficit situation of \$456.4 million. Spending assumption three which provides a small amount for growth would leave a \$789.7 million deficit. Then we worked up a fourth assumption, which took a little more optimistic look, perhaps unduly so, to the revenue growth in the 1986-87 biennium. We said, "What if, instead of nine percent, revenue increases 12.8 percent? And what if, instead of four percent for inflation and 1.6 percent per year for growth that the next legislature should pass an appropriation bill for the 1986-87 biennium that would provide the same biennium-to-biennium increase as you did in 1983, that being an 18 percent biennium-to-biennium increase. If you were to do that, with a 12.8 percent growth in revenue, you would be in a deficit situation of \$524.5 million, even after taking into account the \$920 million by which the governor's tax proposals exceed the spending proposals.

You have a tremendous challenge ahead of you and as Mr. Bullock said, a tremendous opportunity to impact the future of public education in this state. I want you to know that the staff of the budget board stands ready to help you, whatever position you might be in. We think we can provide you with some facts and some information that might help you determine your position in this special session. When the session is over with and you prepare to go back home and explain your action, we will try to help you with that, too. With that I thank you very much.

SUMMARY OF IMPACT OF GOVERNOR'S PROPOSALS TO SECOND CALLED SESSION
ON THE MAJOR FUNDS IN 1986-87 BIENNium, USING FOUR ASSUMPTIONS
FOR GROWTH IN REVENUE AND APPROPRIATIONS
(IN MILLIONS OF DOLLARS)

	Assumption I 1985 x 2	Assumption II 4% Annual Increase for Inflation	Assumption III 4% Annual Increase for Inflation and 1.6% Growth	Assumption IV Increase of 12.8% Revenue and 18% Approp.
1986-87 Major Funds Revenue, 9% Growth Rate(12.8% for Assumption IV) Governor's Tax Plan, 1986-87 Comptroller's Estimate of General Revenue Fund Balance Available for Appropriation, 8-31-85	\$22,718.7 3,544.8	\$22,718.7 3,544.8	\$22,718.7 3,544.8	\$23,517.4 3,544.8
1985 Tax Revenue in Excess of Appropriations Under Governor's Proposed Plan	15.2	15.2	15.2	15.2
TOTAL REVENUE	203.0 26,481.7	203.0 26,481.7	203.0 26,481.7	203.0 27,280.4
1986-87 Major Funds Appropriations, assuming adjustment shown in column heading, no capital outlay and excluding proposed College Building Fund	23,325.5	24,112.0	24,445.3	27,804.9
Governor's Highway and Education Spending Plan, also assuming dedication of 1¢ of cigarette tax increase for cancer research	2,826.1 330.1	2,826.1 -456.4	2,826.1 -789.7	Included Above -524.5
Ending Cash Balance, 8-31-87				

DCGovTax/F
6/05/84

MEMORIAL RESOLUTIONS

- S.R. 7 - By Doggett: Memorial resolution for Bessie Stretcher Gray.
S.R. 8 - By Doggett: Memorial resolution for Robert Elden Mathews.
S.R. 9 - By Doggett: Memorial resolution for N. L. Gault.
S.R. 12 - By Doggett: Memorial resolution for O. H. Elliott.
S.R. 13 - By Doggett: Memorial resolution for Victor G. Probst.
S.R. 14 - By Doggett: Memorial resolution for Jens Michal Jacobsen.
S.R. 15 - By Doggett: Memorial resolution for Edward (Ed) F. Riedel.
S.R. 20 - By Montford: Memorial resolution for Nelda Williams.
S.R. 21 - By Montford: Memorial resolution for The Honorable Frank A. Guess.
S.R. 22 - By Montford: Memorial resolution for J. Billy Marley.
S.R. 23 - By Montford: Memorial resolution for Alex K. Cooke, Sr.
S.R. 24 - By Montford: Memorial resolution for The Honorable E. R. Blakney.
S.R. 25 - By Montford: Memorial resolution for Alton Graham Addison.
S.R. 26 - By Montford: Memorial resolution for A. M. "Al" Muldrow.
S.R. 27 - By Montford: Memorial resolution for J. L. Irish.
S.R. 28 - By Montford: Memorial resolution for H. A. "Hap" Padgett, Jr.

WELCOME AND CONGRATULATORY RESOLUTIONS

- S.R. 6 - By Doggett: Extending congratulations to Mr. Jack Porter.
S.R. 10 - By Doggett: Commending Mr. Bernard Goss.
S.R. 11 - By Doggett: Extending congratulations to Ken Manning.
S.R. 16 - By Doggett: Commending Mr. and Mrs. Dick DeLoof.
S.R. 18 - By Williams: Commending Martha Wright.
S.R. 29 - By Montford: Commending Clem B. Boverie.
S.R. 30 - By Brooks: Extending welcome to Dr. Robert E. Sullivan, Jr.

ADJOURNMENT

The President announced the purpose of the Joint Session had been accomplished and declared the Senate at 11:33 o'clock a.m. would stand adjourned until 9:30 o'clock a.m. tomorrow in accordance with a motion previously adopted in the Senate.

JOINT SESSION

(To hear addresses of State Treasurer Ann Richards and Admiral Bobby R. Inman)

Pursuant to the provisions of H.C.R. 19, the President announced the hour had arrived for the Joint Session of the two Houses to hear addresses by the Honorable Ann Richards, State Treasurer, and Admiral Bobby R. Inman, President and Chief Executive Officer of Microelectronics and Computer Technology Corporation.

Accordingly, the Senators present accompanied by the Secretary of the Senate and the Sergeant-at-Arms repaired to the Hall of the House of Representatives at 10:00 o'clock a.m. and were escorted to seats provided for them.

The President was announced by the Doorkeeper of the House and, by invitation of the Speaker of the House, occupied a seat on the Speaker's Rostrum.

State Treasurer Richards and Admiral Inman were announced by the Doorkeeper of the House and were escorted to the Speaker's Rostrum by Senators Brooks, Caperton, Edwards, Glasgow and Henderson, on the part of the Senate and Representatives Danberg, A. Garcia, Parker, Crockett and S. Thompson on the part of the House of Representatives.

The President called the Senate to order and announced a quorum of the Senate present.

The Honorable Gib Lewis, Speaker of the House of Representatives, called the House to order, announced a quorum of the House present and stated the purpose of the Joint Session.

Speaker Lewis introduced Admiral Bobby R. Inman who addressed the Joint Session as follows:

Governor Hobby, Speaker Lewis, ladies and gentlemen of the Texas Legislature. I am deeply honored by the invitation to visit with you this morning. I've not come to tell you what you have to do, nor have I come to tell you how to pay for it. I deeply appreciated the invitation to talk to you about what I consider an enormously critical issue for the economic prosperity of the State, indeed for the leadership of the country in the years out ahead.

I am a student in early years of a consolidated school in East Texas called Harmony. The rest of my primary school and the first of my high school years were in the Panhandle in the public school system at Dumas. I graduated from high school from Mineola in 1946. I was too young to be admitted to The University of Texas, so I went to Tyler Junior College and then came on here to graduate in 1950. A major in history, government, and economics, a pre-law student. To this body of many lawyers I would simply say I tried law school for a semester and I thought torts, contracts and legal bibliography were the duller things I had ever done, so I taught school for a year and I learned a lot about dealing with the public at large in PTA's and a whole range of things.

Then the Korean War draft board arranged my career for me. The inspiration to avoid the draft, then to find officer candidate school. To suddenly find the career field that I pursued for 31 years. Along those 31 years, I had to come to grips with using technology, and I must tell you, I did it unwillingly. But as an analyst in 1961 I suddenly found all the raw material I was using in tracking the Soviet navy had been automated for input automatically into computers and I no longer could read it easily. I complained to anyone who would listen to me and found they wouldn't listen and I had to change and learn to use technology. I found that the grounding and electives in science and math that I had taken in school, including through college, had given me sufficient base that I could pick up the technology, that I could become an avid user and ultimately a manager.

In 1982, I retired from government service. The opportunity came to put together this country's first consortium — competing companies willing to pool talent for the purpose of trying to maintain this country's preeminence in the information-handling industry. One of the fastest growing market sectors in the world, but one where our competitors abroad have recognized opportunity, and they're moving very rapidly, with education one of their key elements, to try to grab a major share of the world marketplace.

After agreeing to head MCC, I spent some months with a group of nine businessmen drawn from all over the country. In trying to decide where should this enterprise be put to ensure its success as a research center spewing out ideas ten years from now that would make a difference in this country's ability to compete economically, we looked at the established places where success is already ensured, California and Massachusetts, where the central feature is graduate-level education/research programs, generally rated the very best in the country. And when we looked at them we found the reason they are that good is because they got for ten years an enormous support in funding from the Defense Advanced Research Projects Agency and the National Science Foundation. That doesn't take away from their accomplishments, but it also demonstrated the critical role that investment played in creating those centers that worked with industry to spew out ideas.

When industry turned to manufacture the ideas that came out of those great research centers they elected to put much of that manufacturing in California and in Massachusetts. Now I'm persuaded that a critical element of that was the judgment that youngsters coming out of those public school systems, school systems that ranked in the top ten of the country, had the capacity to be trained to the level of technology that would be needed. Not producing the generation of computer "nerds" but giving a solid grounding that ensured all the students coming out had the opportunity for productive jobs in a burgeoning manufacturing sector.

When we looked at those areas we found they were saturated. They're going to be enormously important to the economic health of this country for a long time. But it was clearly time for another major center to develop. We looked in a great many places where there is a lot of work going, and let me tell you there were a good dozen states that have very energetic programs underway to try to be that third or fourth great new center of manufacturing in this country. We selected Texas, we selected Austin. There were two primary reasons that drove that decision. One was the committed level of investment in graduate-level educational research programs at The University of Texas at Austin and at A&M on a scale that persuaded us that this would become a center of academic excellence, computer science/electrical engineering, rivaling the Bay Area of California and Boston. The second area was collaboration between State and local officials, and the academic community in the private sector, on a scale that we had not found anywhere else. We found the work ethic was still very strong and alive.

In looking at what made it possible for that proposal to be put together, it was action by this body. Action by the Legislature in 1975 permitting endowing of chairs

at public universities and in 1981 permitting matching grants from the permanent fund. That legislation was key to the movement that is now underway to make The University of Texas at Austin the number-one public university in this country.

You already have seen signs in this past year of other research centers following. The announcement by 3M of moving research facilities here. The announcement of, yesterday, by Lockheed of moving a research center in software here. The beacon isn't MCC, we just brought the publicity. The beacon is the graduate-level education and research programs.

I have enormous confidence that out of these research centers are going to spew ideas and those ideas are going to offer the potential for an enormous boom in the manufacturing sector. But as industry turns to the critical question of deciding where to put the manufacturing facilities that will come, six, eight, ten years ahead, I believe they will look at a whole range of issues and they are going to look at some issues that we did not look at. Graduate-level education research drew the research center. When the corporations turn to decide where to put their manufacturing facilities they are going to still be very concerned about business climate, but they are also going to look at the quality of the work force. Along with that strong work ethic, is there going to be the base of knowledge to permit them to be trained rapidly to whatever level of technology is needed? My judgment is, that's the Achilles' heel for the potential great economic boom for this state in yet a new area. Let me tell you my strong conviction that so-called high tech is not going to replace agriculture in this State and it is not going to replace energy and they are going to continue to be very critical elements of this economy as far out as I can see. But the application of new technology that is going to come out of the ideas that we and others are going to produce are going to be used increasingly in agriculture and in energy, and in the existing manufacturing components that are already here, in ensuring an economic boom.

I had the privilege, yesterday, of visiting Waco; going up to talk to the Rotary Club. But I spent a couple of hours visiting another product of action by this Legislature, the Texas State Technological Institute. For dealing with the critical problem of training beyond education, how do you help companies train people quickly to the level of talent you need to make the machines work well and fast? I was discouraged to hear that two-thirds of the youngsters that come to TSTI for technical training have to do remedial work, some in reading, writing, as well as in math, before they are ready to undertake those training courses. So putting that against all the national statistics, whether you look at SAT scores or spending or the rest of it, the perception of the public education system ranked in the thirties is the greatest threat to the potential economic boom that lies out ahead of us.

I have been back in the State, as you know, less than a year and I was gone for 33 years. I have not had the chance to examine in great detail the performance of the public school system. Nor have I had a chance to look at the tax base, so I would not presume today to try to give you advice either on how to improve the system or on how to pay for it.

I believe all of us need to set as a goal that we want a public education that is in the top five in the country. That it takes us ten years to get there is far less important than the goal, and I believe industry will bet on the State if they see the drive is there, even if it is going to take ten years to get there. As long as there is the clear momentum aimed toward having one of the finest public education systems in the country.

I can't resist the temptation to offer you a little advice. In my earlier life, in managing some very large enterprises on our taxpayers' dollars, I had the privilege of four years of managing an operation in excess of \$2 billion a year and more than 45 thousand people scattered around the world, and I can tell you that the toughest part of management is managing change. And managing change by committee is

next to impossible. And so as you approach the problem, as you embark on the changes that bring this State the education system it needs, don't burden it down with problems in that process that are going to make it awfully hard to manage that change. And even in the enterprise that I'm engaged in now, with far fewer people and far fewer dollars, probably \$65 million going into the local economy, 420 to 450 people at work, nonetheless managing with 18 different corporations, each of whom has a member on the board of directors, has its own excitement. It is doable because of the strong authority vested in the chief executive officer. So as you look at the challenge, please know that you are going to have make sure you don't burden that change by a structure that is going to make it very difficult to implement.

If we have learned any lesson out of these last ten to fifteen years, of seeing the courts try to manage change in the education systems, and they have done some strong and some good things, clearly we know it's better if we manage it as citizens, rather than leaving it to the courts to do. So, clearly you have a great challenge ahead of you as you address the education problems, to deal with the tough problems. Don't leave it to the courts to decide what to do.

As a youngster growing up in the State, I was too scrawny to play football or basketball or baseball. I was in the band, but I loved all those athletic events and I went to all of them. I am here to tell you that I believe that education is the first priority, but I hope you will find you can afford to keep both.

Finally, Ambassador Ed Clark drug out of my past, when I was at UT as a teenager, that as my way of rebellion, I joined the Young Republicans. As a working adult in the service of this country, I was a registered Independent in California all those adult years. I've probably voted Republican more than I've voted Democratic. Education is a bipartisan issue.

I have never endorsed a political candidate and I don't plan to start, but I greatly admire Governor Mark White's courage in coming to grips with the public education problem and the cost, no matter what he may have promised before. And I was inflamed last night with some coverage about some ads focusing on taxes. But then I called around the State this morning and I found that some of my old friends, Bill Clements, Peter O'Donnell, and Boone Pickens are out working to support the Governor on this issue of reforming public education and on paying for it. It's a bipartisan issue that holds the future, not only of the youngsters that are coming along, but potentially of the nation, for indeed if this State rises to the occasion, it will provide the leadership this country must have in competing effectively at the international marketplace in the year 2000.

Thank you very much for your time.

The President introduced State Treasurer Ann Richards who addressed the Joint Session as follows:

I'm delighted that I was invited to speak with you today and, in an effort to acquaint myself with the miracle of high tech. All of you who have seen the roadshow before, with the charts, those of you who are seated on the sides and can't see those charts, we've arranged to provide the same picture to come up on your monitors there at your desk. (Charts follow text of speech)

The problem is not a complex one to understand, but I think that illustrations do simplify the matter.

Bob Bullock was here last week to tell you that in the long range you haven't got any money. And I'm here this week to tell you in the short range you don't have any money.

As an elected official, like most of you, the delivery of bad news or difficult problems is not something we want to do. But the truth of the matter is that the people of Texas didn't elect us to solve simple problems. If they were all that simple we wouldn't be necessary.

This morning we want to discuss with you a problem that relates to the cash flow of the State of Texas. It is the same kind of problem that most of us deal with in our own household budgets; and that is the timing of money and when you get it, and how you spend it, and the timing that accompanies that expenditure.

I want to thank, to begin with, Billy Hamilton of Comptroller Bob Bullock's office, Jim Oliver and Homer Scace in the Legislative Budget Board, Tom Scott in the Lieutenant Governor's office and Buddy Jones in the Speaker's office, who have provided immeasurable help to us in giving this presentation to you this morning so that you can understand the number of people that have been involved in trying to make some recommendations to you.

I hope that Chart No. 1 is up on your screen by now, which describes the Texas biennial expenditures for the last — this last biennium, including the coming year. Because what you do every session is that you come here to Austin and Bob Bullock does a gangbuster job of telling you how much money you have to spend for the coming two years.

And if you budget those expenditures into three separate categories...one category is general revenue, which, of course, is the bulk of it; and then there are two other categories which are the statutory funds described by law, and the other is the constitutional funds, described in the Constitution.

Now, obviously there are going to be periods of time when you're not going to have the same amount of money coming into the constitutional fund, the statutory fund or the general revenue fund that exactly matches the expenditure that's taking place at the time.

And so, when that occurs, you have a situation, for example, where we're short in general revenue for the State employee payroll, and we must get that money from somewhere. The Comptroller then turns to the statutory funds, of which there are 335, and for example, borrows money from the criminal justice planning fund, or from the state parks fund, to be able to cover whatever the shortfall is for that period of time in the general revenue fund.

By and large it is a rob-Peter-and-pay-Paul sort of activity that is called inner-fund borrowing. When general revenue runs short, we borrow everything that we can from the statutory funds to cover those shortfalls.

We may not touch any of those funds that are constitutionally described. And so that second little chart is just to show you that we rip a hole in the money bag for the statutory monies, and we put them into general revenue to cover the bills.

The next chart is to give you a notion of the mismatch that takes place between the months—between expenditures and revenues. Those nice little chimneys or brick-like columns show you the months in which our expenditures exceed our revenues. And the dark black columns show you the months in which the revenue exceeds expenditure.

So, you see, the severity of the mismatch that takes place between those months.

In the next chart, Chart No. 4, there is described for you in the same way with the top bar column describing the revenue in that month and the bottom bar column describing the expenditure, and a chart at the very bottom that shows you what takes place between September and April, and September and August.

We end the year in good financial shape, because you do not over-budget, and because you expend the monies that Bullock has described that are available for you to spend. But what happens to us in the spring of every single year, and this year is no different? It happens every single year...that the monies available in April, and in this year it is going to be March, are not available to cover the expenditures that take place. Even though the revenues come in in the summer so that you are able to deal with the problem, and we end with a balanced budget in August.

Now, the reason for that is that we advance money; you appropriate money so that you can assist local school districts that do not receive their local funds 'till

January. So, September and October you give the Foundation School Program 12-1/2% of their budget in September, 12-1/2% of their budget in October.

For the junior colleges you appropriate 50% of their entire year's budget in the first month of the fiscal year. And the reason that you do that is because those junior colleges depend on that revenue that is raised in interest by investing those funds to be able to get through their school year.

So, I want to caution you that in all of this talk about the timing of the appropriations, that any time you reduce the timing, that is, you give any group less money at any specific time, and particularly the junior colleges, you are imposing a severe financial burden on them because they need the interest earned on that money to be able to finish out their year.

Now, Chart No. 5 shows you why this year is different from other years. What happened to us in 1983, for example, and we chose that just as an arbitrary year, was that you began the fiscal year with \$1.4 billion in surplus. And while you have....the taxpayers say and often the newspapers say....that if you have a surplus, then obviously the public must be taxed too much. They couldn't be further wrong.

Because that surplus has afforded you the opportunity of making up the problems of cash flow that you have in the spring every year. But now that that surplus is being depleted and you are looking into FY 1985, beginning with a surplus of \$550 million, which is approximately one-third of what you had in 1983, you do not have the cushion of money to cover the problem that we face in the spring every year.

Chart No. 6 describes for you the activity that takes place in this State beginning in September 1 of every year. You see, we start the year in the black in August, because that's our high-revenue period, and then in September we transfer the monies to the foundation school fund, to the junior colleges and the other expenditures that we have in September and October, and it's just like pulling the plug in the bathtub. The money runs right straight down the drain, and we do not begin to recover until the summer months. All of that peak activity described on the chart that you see here is the inner-fund borrowing activity, and the difference this year is that we do not have the monies available to meet the red peak which you see at the bottom of the chart, which puts us further in the hole, because the surplus was not there to cover it.

Now, to compound the problem, and the reason I think that the Legislature was kind enough to ask me to speak today, is that in examining the proposal that is before you related to education, if you continue the appropriation pattern as outlined and the collection pattern that we believe will take place, you will be further in the hole by at least \$130 million in March and April of next year than you are in the hole now simply because the money goes out, and the revenue does not come in to cover that shortfall.

So, the sad message is that in beginning March and April of next year, there will be a cash shortfall of \$1.1 billion. We will be able to cover \$1.1 billion with an estimated \$650 million in inner-fund borrowing that is going to leave you \$550 million in the red.

Now, this has happened in the past, so that the State did go into the red, and the solution for that has been that the State Treasurer, under a statute called Special Demand Account, was able to go over and cut deals with private financial institutions that are State depositories, that are principally banks, and that deal would be that those banks would take the State's hot checks and they would hold those hot checks until we had the money to redeem them.

The cost of that activity was that we would leave our constitutional funds invested in those banks, drawing no interest, to compensate the banks for the loss of the money that they have extended to the State in what virtually is a loan agreement for a period of time.

As the fiduciary officer of this State, I will tell you that I have some serious reluctance to participate in that activity for a number of reasons. And I am not sure that it means that simply because the statute is there, that under the Constitution of this State that it is appropriate for the Treasurer to sign a warrant that she knowingly knows is a hot check.

And so, what we need is approximately \$500 to \$600 million in the spring of 1985. And we have examined any number of various solutions.

Now, you all recognized this problem for other governmental entities in the last session of the Legislature. You extended the authority to cities and river authorities and metropolitan transit authorities to be able to issue cash management notes, which is a well accepted technique. It's used in 25 other states, in thousands of cities and counties and other taxing entities.

I have been very reluctant to push that issue in this session of the Legislature because, very frankly, I think you have your plate full with other matters.

But there will be no question that we will be coming back to you to discuss the possibility of the issuance of such notes that we'll be able to see the Legislature through the long haul of cash planning.

A request has gone from Lieutenant Governor Hobby and Speaker Lewis to Governor White, on behalf of the Legislative Budget Board, to open the call of this issue of cash flow to this session of the Legislature. A bill is being prepared and we hope distributed to you in short order. But, in essence, it's a cooperative effort of the Treasury, the LBB staff and the Comptroller.

Some of the proposals that are going to come to you are that we move the franchise tax collection date from June 15th to March 15th. We are further going to suggest a leveling of payment to the foundation school program and an adjustment and leveling of junior college payments.

A questionnaire has been mailed from the LBB to school districts and to junior colleges to assess the impact on them because without a question, if that leveling takes place, you will also be asked to address the amount of money that it is going to cost those institutions when you take on that leveling process.

There will be a consideration of the placement of motor fuel tax income in the general revenue fund, with quarterly payments being made to the highway fund, which would give us the opportunity to use those funds within general revenue for the period of time that we're experiencing the shortfall.

We stand ready in my office, and I know that it is true of the Comptroller, to provide information and assistance to you individually or in your committee deliberations as you deem necessary on this problem.

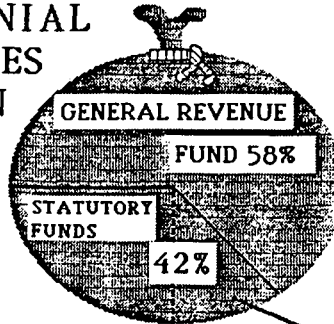
The long range solution is that attention must be given to the appropriation pattern in the regular session of the Legislature to determine a more even flow of money coming in as well as the money going out.

Again, I apologize for being here and not bringing you the best news in the world. Jim Oliver told me the other night that he had heard a wonderful expression, and that was that turkey feathers and deer tracks make mighty thin soup.

And that is exactly what we're dealing with in the Treasury for the spring of 1985 and I urge your assistance to address the problem.

Thank you very much.

**TEXAS BIENNIAL
EXPENDITURES
\$31 BILLION
(1984-85)**



GENERAL REVENUE FUND

EXPENDITURES FOR GENERAL
STATE OBLIGATIONS SUCH AS

- Foundation school program
- State employees payroll and matching costs
- Junior colleges
- Medical assistance
- Highways

335 STATUTORY FUNDS

EXPENDITURES STATUTORILY
RESTRICTED TO
NEEDS OF THESE FUNDS:

- Highway motor fuel tax fund
- State parks fund
- Criminal justice planning fund
- Comptroller's operating fund
- Foundation School Fund
- Departmental suspense fund
- 329 more

**CONSTITUTIONAL
FUNDS**

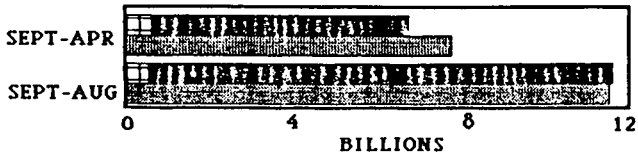
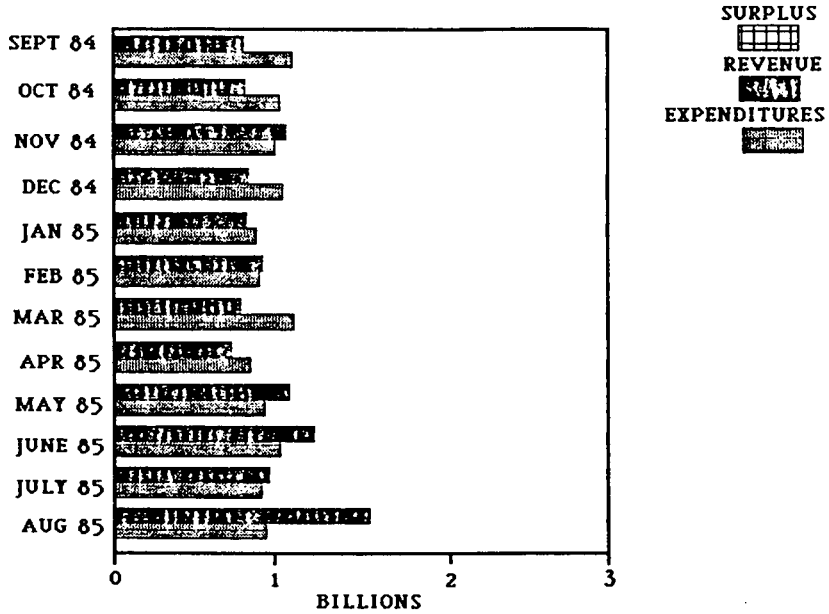
74 CONSTITUTIONAL FUNDS

EXPENDITURES
CONSTITUTIONALLY
RESTRICTED TO NEEDS OF
THESE FUNDS

- Permanent School Fund
- Available School Fund
- Permanent University Fund
- Available University Fund
- Veterans land bond funds
- Texas Park Development Fund
- Water Development Fund
- University building funds
- Eleemosynary funds
- Other

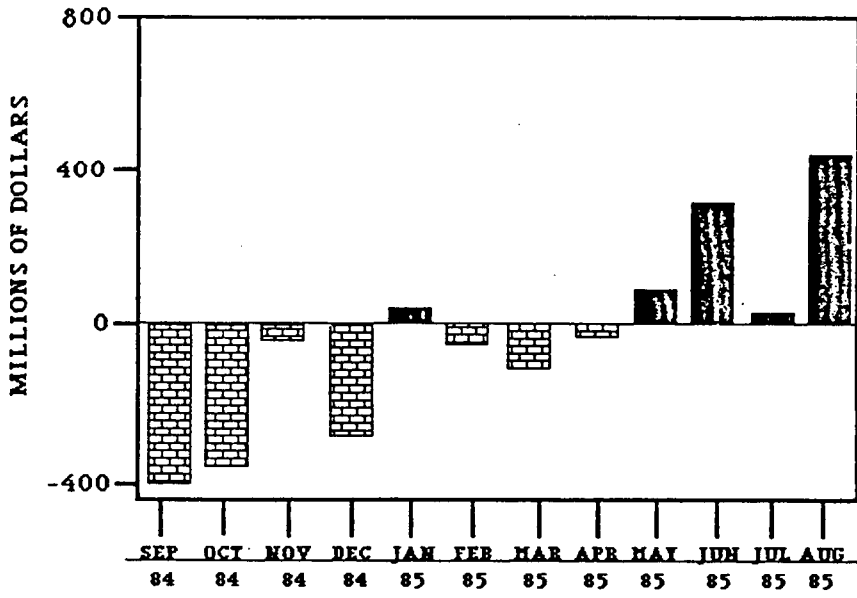
GENERAL REVENUE SHORTFALL

FY 1985 (EST)



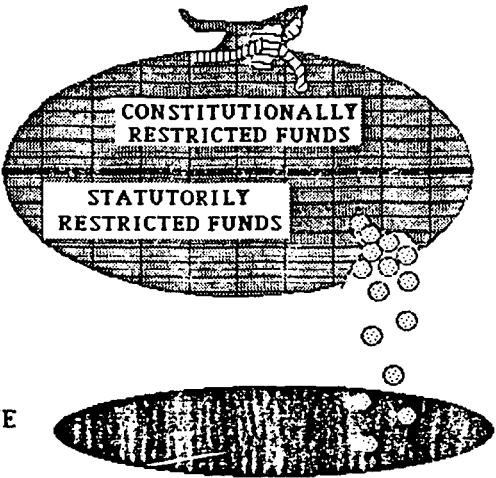
GENERAL REVENUE NET FLOW

FY 1985



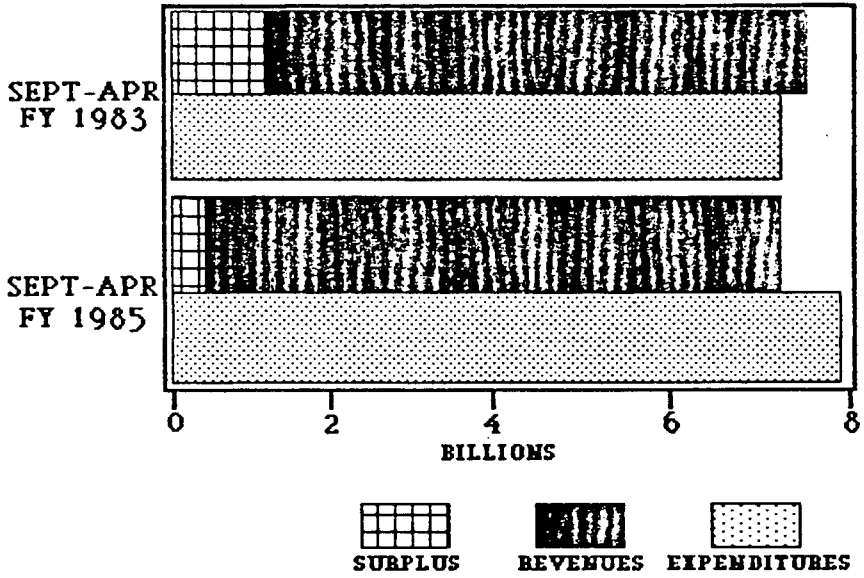
GENERAL REVENUE FUND SHORTFALL

TOTAL CASH IN
THE TREASURY

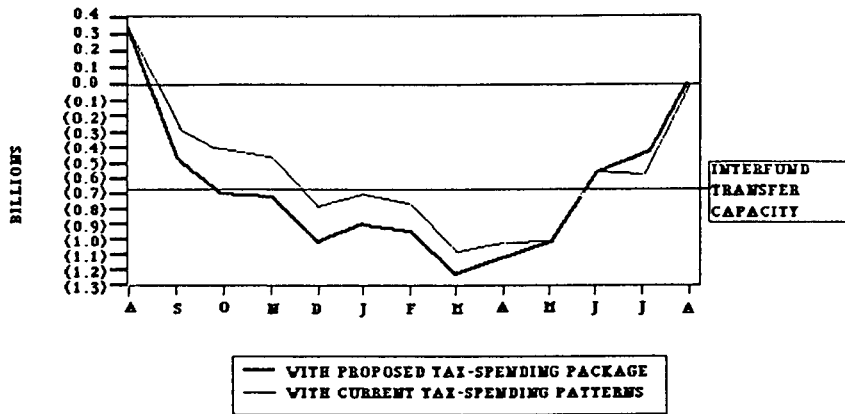


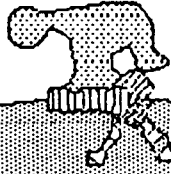
GENERAL REVENUE
SHORTFALL

GENERAL REVENUE



GENERAL REVENUE--FY 1985 (EST)





SPRING '85

CASH FLOW NEED:

\$500 M-\$600 M

NO NEW MONEY NEEDED